

NEWS ARTICLE

By Senator Bev Hammerstrom
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Much of the attention on the new federal Medicare Prescription Drug Bill signed into law December 8, 2003, focused only on the senior prescription aspect, but perhaps the most interesting innovation within that bill is the creation of health savings accounts, a tax-exempt option that will empower consumers to have a greater say in their own health care. This option contains many improvements over the Archer Medical Savings Accounts (MSAs) that were enacted in 1996.

Under the present system, many insurance plans will cover virtually all of your health cost in exchange for a high-premium payment which is paid either by the employer or by individuals. In more recent years, deductibles and higher co-pays have been initiated to help contain the costs to businesses. The American system should continue to have this option, but under such a system, consumers are not fully invested in the process. They don't really know the true costs of medical services, and they are in no position to demand better prices. There's no selectivity in the marketplace. When consumers don't have the incentive to cut prices, costs go up.

The doctor-patient relationship is also a vital part of a good health care system, but today more and more often, bureaucracy is getting between the patient and the doc. Treatment more often follows what insurance companies will cover than perhaps what the doctor or the patient would prefer. Health savings accounts could begin to change this trend.

As of January 1, 2004, any eligible individual can establish a health savings account (HSA) in much the same way that individuals establish IRAs. No permission or authorization from the IRS is necessary. So, just what is an HSA?

An HSA is a tax-exempt trust or custodial account established for the purpose of paying routine medical expenses in conjunction with a high-deductible health insurance plan. An HSA cannot stand alone; it can only be combined with a high-deductible plan. Such a plan must have an annual deductible of at least \$1,000 for individual coverage and at least \$2,000 for family coverage. This high-deductible plan can be provided by either an individual or an employer. Contributions to an HSA can be made by individuals, employers or rollovers from Archer Medical Savings Accounts (MSAs).

The annual contribution limit is the lesser of either 100% of the annual deductible under the high-deductible plan or the maximum permitted under the Archer MSA, as adjusted for inflation. The estimated 2004 maximum high deductible is \$2,600 for an individual and \$5,150 for family coverage. Individuals over 55 years may make additional contributions. Individual contributions are tax deductible whether or not the individual itemizes, and these are "above the line" deductions. Employer contributions are tax-free to employees.

Monies in the HSA are utilized to cover routine medical expenses and may be covered on a first-dollar basis, i.e., no deductibles will have to apply. Medical expenses as defined under Section 213, except health insurance premiums, are tax-free, and built-up earnings on the account are also tax-free. Tax-free HSA withdrawals can be used to purchase age-based Qualified Long-Term Care Insurance. The HSA is "portable" and goes with the individual. In other words, the account belongs to the individual to be used by the individual as he/she desires. Withdrawals can actually be made for non-medical purposes, but at that time the withdrawal is taxed and a penalty applies. Funds withdrawn for non-medical purposes will be included in the holder's gross income and taxed accordingly, and a 10% penalty will be applied, except in cases of death, disability, or Medicare eligibility. In the case of death or divorce, the account may be transferred to a spouse without incurring taxes.

While it is always hard to predict how markets will react to change, I would venture to predict that several things will occur. First of all, there will be a rush of banks, insurance companies and third party administrators to develop products, and there will be efforts made to create greater public awareness of the product. The individual market will convert to HSAs in large numbers, and the uninsured will find it easier to gain coverage. Unlike MSAs, HSAs will be available to everyone and will be especially attractive to those workers whose employers provide no coverage at all and who make up the vast majority of the uninsured. HSAs should have a profound effect on the short-term uninsured.

The market is ready for this as all of the discussion about consumer-directed health care over the past few years has sensitized corporate decision markets to the advantage of putting more control in the hands of the employees. HSAs are a perfect opportunity to do just that. And the timing couldn't be better with an improving economy, widespread gains in the equities market, and double digit increases in health care premiums. Get ready for the race that I believe is about to begin!